

MARKETING

Gen Z lays down the gauntlet for luxury

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The expectations of Chinese luxury clients are changing rapidly, mainly driven by Gen Zers. Why are so many brands still underestimating this segment? Image credit: Anta

By **Daniel Langer**

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The *Jing Daily KraneShares China Global Luxury Index* has become a critical data point in evaluating the performance and impact of luxury brands in China.

Since the beginning of 2022, the index performed significantly lower, with a slight recovery since mid-March. While the index does not necessarily provide a 1:1 correlation with the actual performance of the top companies, this lower value indicates a structural change in consumer sentiment that labels need to be aware of.

While many factors, including the **"common prosperity"** initiative of President Xi Jinping, play into the muted performance of the index in the first quarter this year, it also shows how the expectations of Chinese luxury clients are changing more rapidly than ever before.

I continue to be bullish on the overall health of the Chinese luxury market and its growth prospects. However, many Western businesses underestimate the expectations of Gen Z. Those who are slow adapting or unable to make the change are already feeling significant headwinds.

While many in the industry are still doubting the relevance and impact of the metaverse, consumers have switched on to the new reality. The **demand for NFTs**, especially from young affluent Chinese customers, is unprecedented.

Before the end of the decade, according to *Art Research*, the digital art market is likely to exceed its physical counterpart by far. Today, NFTs are already 16-20 percent of the sector, with strong demand from the mainland.

And the different tastes of Gen Z are changing the way we commute (think luxury backpacks), dress (ditto sneakers), spend our time (the fastest-growing Chinese online computer game *Honor of Kings* has more than 100 million users), and do sports (**Keep**, the Chinese sports platform, has more than 300 million users and makes Peloton look like an irrelevant player in the field).

Travel destinations are chosen not just for the beauty of the place but increasingly for the ability to create social media content and recreate posts by KOLs.

In their brand preferences, Chinese Gen Z are going local.

Sportswear giant Anta is **giving adidas and Nike a run** for their money: its presence at the **Olympic Games**, along with clever initiatives on women's empowerment (not to mention a savvy use of Weibo and WeChat) have significantly boosted the group's influence among young consumers.

If German and U.S. category leaders don't change gear, they may lose significant market share and influence. And not just in China: as Anta expands and gains further traction with Gen Z, it could become a global concern.

Even traditional Western strongholds like luxury cars may be in danger.

Consumer studies suggest that for the first time in history the aspiration level of Chinese car brands among Gen Z is similar to those of German origin. Xpeng, Nio, and their compatriots may soon overtake Audi, BMW and Mercedes if the incumbents do not manage to lead in terms of desirability and extreme value creation with luxury's younger clients.

It is a wake-up call for the incumbents.

History has demonstrated again and again that just because a brand was leading in the past does not mean it always will.

China, for decades, has almost been an automatic growth environment. The demand for foreign offerings was unprecedented. Combined with the scale of the market, this meant many firms simply performed by being present. The cracks in this model are beginning to show.

To win in the future, luxury will have to create the future. It's the biggest opportunity, and if not done right the biggest threat.

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